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Sales Management and Compensation Practices

International Business Forms Industries

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1978 SALES MANAGEMENT AND COMPENSATION PRACTICES

Prepared at the direction of the IBFI Employee Relations Committee of International Business Forms Industries, Inc. for the benefit of the Industry and its customers.

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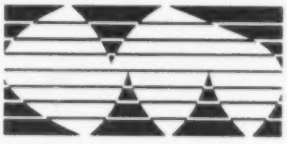

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SALES MANAGEMENT AND COMPENSATION PRACTICES

AN OVERVIEW

The compensation plan utilized is the most important consideration of the individual salesperson. A proper balance between the goals and needs of the salesperson and the objectives of the firm will tend to maximize the benefit to each salesperson. It is important for the salesmanager to consider this objective in formulating his compensation policies. Differing compensation methods for salespersons within the same organization should be examined, where feasible, since each salesperson has individual preferences, which, if met, will enhance individual productivity. The following guidelines can be useful in developing a compensation program, and adopting it to either an individual or group compensation approach:

1. Establish clear and consistent compensation objectives.
2. Determine the level of income desired for the salesperson.
3. Determine the relative portion of each of three elements:
   a. Base salary
   b. Individual incentive
   c. Group incentive
4. Establish the measurement criteria to be used to evaluate performance.
5. Relate the method of incentive payment to the measurement criteria to establish the compensation "formula".
6. Apply the formula to the past experience of several individuals and groups, to test results on historical performance.
7. Make a field test of the new compensation plan, to determine its acceptability to the sales force and to measure its influence on sales performance.

In addition to compensation, the sales manager should be aware that here are related variables within his control. The selection of salespersonnel, the extent of training, and methods of supervision of salespersons all interact with the compensation system in maintaining a successful program.

The data indicates that the survey participants differ widely in the types of controls applied, and the extent to which a particular control variable is used. This is normal and to be expected. The number of variables involved in any sales effort indicates that different combinations of variables can be used to produce the same result.

There are numerous theories on the subject of management control of a sales force, ranging from a "Vaguely Right" approach (pure judgment), to systems approaches utilizing computers to quantify virtually every detail of the sales effort. It is unrealistic to expect a generalized theory to be completely applicable to a specific sales program. However, virtually all theories recognize that there do exist the variables that have been discussed. The thrust of this summary, then, is that the manager should make himself aware of these variables and how to utilize them in the context of his existing program.

There is no feasible means of quantifying the extent of control a manager should exercise. This is a decision that must be made by management based on experience, and judgment concerning the ability of the sales staff. A top producing salesperson who has been working a territory for a significant period of time is unlikely to require a list of prospects. To a trainee, on the other hand, a prospect list might be essential to his success. The same is true of requiring a fixed number of calls over a given time period. These examples again point out the importance of the front line manager in maintaining flexibility in procedures, and a knowledge of the variables he has to manipulate.

Returning to specific discussion of the survey data, the fact that the sales forces tend to range in size from seven to nine would indicate that the sales manager at this level would have a good knowledge of the individuals under him. Consequently, the manager is in a position to make a sound judgment of the extent and type of control variables he can use, both as a group and individually, to tend to maximize the output of his staff. Feedback from the salespersons is essential at this level to produce the desired results.

THE SALES FORCE AS A SYSTEM

MANAGERIAL CONTROL AND SALESPERSON'S ACTION

THE SALESMAN CAN TAKE THE FOLLOWING ACTIONS:	THESE ACTIONS OF THE MANAGER INFLUENCE THE SALESMAN:	THE MANAGER CAN MAKE THE FOLLOWING DECISIONS:	THESE ACTIONS OF THE SALESMAN ARE MOST AFFECTED:
Number of sales calls	**Number of salesmen**	**Number of salesmen**	**Number of calls**
	Training in territory coverage, routing, and time management	Selection of salesmen	Call quality, primarily in communications effectiveness and interpersonal relationships
	Standard orperating procedures for sales force organization, territory coverage, and routing	**Training**	
		Territory coverage	Number of calls, allocation of sales effort
		Routing	Number of calls
	Tools for time-saving	Time management	Number of calls, allocation of sales effort
	Motivation and compensation	Product knowledge	Call quality (message content)
Quality of sales calls		Customer operations	Call quality (message content)
a. Message content	Training in product knowledge and customer operations	Sales skills, communications, listening, and group presentations	Call quality (communications effectiveness)
	Information flow on customer status, industry trends, and callplanning	Sensitivity programs	Call quality (interpersonal relationships)
		Market planning	Allocation of sales effort
b. Communications effectiveness	Salesmen selection	**Standard operating procedures**	
	Training in sales skills, communications, listening, and group presentations	Sales force organization	All three salesmen's input variables
		Territory coverage	Number of calls, allocation of sales effort
	Standard operating procedures for sales force organization and call planning	Routing	Number of calls
	Visual sales aids	Call planning	Call quality (message content and communications effectiveness)
c. Interpersonal relationships	Salesmen selection	**Sales tools**	
	Sensitivity training	Time savers (dictating equipment, calculators, etc.)	Number of sales calls
	Motivation and compensation	Visual sales aids	Call quality (communications effectiveness)
Allocation of sales effort	Training in territory coverage, time management, and market planning	**Information flow**	
	Standard operating procedures for sales force organization and territory coverage	Customer order status and industry conditions	Call quality (message content)
	Motivation and compensation	**Motivation**	
		Incentive pay, contests, recognition, opportunities for personal growth and promotion, etc.	All three salesmen's input variables

SOURCE. Harvard Business Review, March-April, 1975, p. 92-93.

The interaction of the front line manager and higher level management (V.P. of Marketing, etc.) becomes important at this stage. The survey data indicates that in the majority of cases volume quotas, desired profit, and similar sales goals are set at this higher level of management. This is necessary because mid and upper lebel management provide the essential "tie in" between production levels and similar non-sales factors and the corresponding levels of sales required. A potential problems exists, however, if higher management has a tendency to constrain the front line manager in the types and extent of control variables at his disposal. The front line sales manager is in the best position to utilize these variables, and if too many of these "tools" are denied, his flexibility in meeting higher level management objectives will suffer.

Once the basic compensation plan is developed, motivation can be increased by the sales managers in other ways. Two broad areas are important to consider to further motivate salespersons: bonuses, contests, and related monetary incentives; and "psychological" incentives involving recognition, self-esteem and status. The following table can be used as a list of variables the sales manager has available to him in the motivational area and as an indicator of the relative "values" of different types of incentives.

EFFECTIVENESS OF INCENTIVES TO STIMULATE AVERAGE SALESPERSON TO BETTER THEIR PERFORMANCE*

Factor	Rating
Basic compensation plan	100
Sales contests	58
Bonus payments	55
Friendly, informal supervisors	44
Scientific planning of quotas and territories	34
Honor awards and letters of commendation	23
Sales conventions	18
Profit sharing plans	17
Fringe benefits-retirement, hopsitalization, etc.	14
Vacations with pay	11
Suggestion systems	2
Complaint procedures	1

**The ratings were derived in the following manner. The Executives were asked to select the most important incentives from the list and to rank them one to five. The answers were weighted by assigning values from five down to one point for the five rankings. The highest total rating went to basic compensation plans, and all other ratings were expressed as a percentage of that figure.*

The table indicates salespersons tend to be motivated toward monetary incentives. Bonuses and contests, then, should be structured with this rule in mind.

It is important to note that although monetary incentives rated highest, "psychological" incentives (honor awards and letters of commendation) were evaluated higher than such items as fringe benefits and profit-sharing plans. These types of awards are virtually cost free to the firm and therefore should be utilized by the sales manager in conjunction with monetary incentives.

There are, of course, many types of incentive programs. Bonuses or contests can be geared to volume quotas, profit, new customers generated, and can take the form of individual or group incentive. There are some points which should be considered by the sales manager when formulating an incentive plan:

1. The goal to the firm of the incentive plan should be evaluated to insure the plan will contribute to the goal.

2. The amount or type of incentive: Feedback from the salesperson can be important in determining if the incentive will motivate the sales force in the desired manner.

3. Insure that the competition will not interfere with the cooperation of the sales force among itself.

4. Evaluate the problem to insure an incentive program is required, as opposed to additional salespersons, revision of territories or similar actions.

The total compensation package can be considered the sum of the basic compensation plan and the additional incentives available to the sales manager. It is with the total compensation package that the manager has the variables with which to balance the goals of the salesperson with those of the firm. The proper analysis and use of these variables will maximize the benefits for the firm.

The goals of the firm can be divided into two distinct areas: present and future goals. Current production and sales levels, product types, and sales territories define the present goals. Anticipated expansion or variations in these factors define future goals. The sales manager must be familiar with the current goals of the firm in order to meet the existing needs of the sales effort in relationship to overall firm demands. In addition, he must be aware of future goals in order to make use of the variables at his disposal to meet future demands.

Compensation is the most effective means of the sales manager to direct the sales effort in relationship to the overall goals of the firm. For this reason, it is crucial that the manager review his total compensation package and be aware of the variables he has available to motivate his sales force to meet these goals. If basic compensation is not achieving desired results, the manager must determine if a different plan would be more effective, or if an added form of incentive is required. The introduction of a new product line, for example, might be failing simply because the sales force is satisfied with their current basic compensation from sales of existing products to their current customers. An additional incentive for sales of the new product could then be utilized to make sales of the new product more attractive to the salesperson. In this way, the sales manager is manipulating variables in a way which satisfies his sales force and achieves the firm goal of expanding its new, and possibly more profitable, product.

Sales effectiveness can be improved by manipulating variables as discussed in the preceding sections. It is necessary then for sales managers to develop a suitable system for evaluation of the efficiency of the sales force. The data indicate that sales volume quotas are more frequently used than a form of profit objective in evaluating sales efforts. Volume is a valid criteria for evaluation, but the sales manager should be familiar with other methods of measuring effectiveness that include an analysis of profit as well as volume of sales. For example, a decline in production, delivery, or service techniques would lead to a decrease in total firm profits. If not properly identified, however, the decline in profits may be assumed to result wholly or in part from the sales area. The following are some alternative methods which can be utilized in conjunction with sales volume to provide more accurate data on the sales program.

1. **Contribution to profit.** The company's products can be turned over to the sales force at cost, or at cost plus some markup representing the production department's contribution to profit. The sales force in turn sells the products at a markup. This margin, minus all costs of the selling operation-salesmen's salaries, sales management and supervision costs, travel and entertainment expenses, credit losses, interest on accounts receivable-represents the contribution of the sales department to corporate net profits.

2. **Return on assets managed.** The sales force requires certain capital investments-goods in warehouses, branch offices, salespersons' automobiles, money tied up in accounts receivable. If current sales expenses

such as salaries, travel, and entertainment are subtracted from gross profit on sales volume, the balance represents the return on these investments.

If a company uses this yardstick, some costs that are now absorbed in the current budget are logically capitalized and depreciated. A sales training program useful for five years, for example, would more logically be written off over five years than in one year.

3. **Sales cost ratio.** A frequently used index is the ratio of sales expenses divided by dollar sales volume This ratio should be used in conjunction with other yardsticks, because a sales force selling $10 million at a 5% expense/volume ratio may not be as profitable as a sales force selling $20 million with a 7% cost ratio.

4. **Market share.** This output is influenced by variables other than sales department productivity. If, however, product quality, pricing, advertising effectiveness, and competitors' activity remain relatively constant, an increased market share could be considered an indication of increased sales force productivity.

5. **Achievement of company marketing goals.** In addition to, or instead of, indices for comparing companies in an industry, measurements of desired performance may be used. An example might be "to increase our market share from 15% to 25% provided net profits as a percent of sales do not go below 10%."

These alternative methods of analysis can provide the manager with a more accurate idea of the effectiveness of the sales effort, and data with which to make a decision on changes that might be necessary within the sales program.

AVERAGE EARNINGS

The average salesperson in this survey earned $22,898 in 1978. This figure is a 12.8% increase over the results of the 1976 survey. The earnings of individual salespeople ranged from a low of $5,200 to a high of $161,000. The smallest companies in the survey – those doing less than $3 million in business per annum – reported average salesperson earnings substantially lower than did companies in the other three size categories. However, this differential seems to have narrowed since the last survey was done.

TABLE 1

AVERAGE EARNINGS PER SALESPERSON – 1978

Company Size	Individual Salesperson Low	Individual Salesperson High	Company Average For Category	Distribution of Average Earnings ($000)					
				% of Companies in Each Size Category					
				10-less	11-15	16-20	21-25	26-30	Over 30
Under $3 million	$5,250	$38,000	$18,603	12.5	25.0	37.5	12.5	–	12.5
$3-8 million	$11,579	$90,000	$24,014	–	9.1	27.3	45.5	–	18.1
$8-15 million	$12,200	$75,000	$23,967	–	–	33.3	33.3	33.4	–
Over $15 million	$ 8,989	$161,000	$24,379	–	–	27.3	36.4	27.3	9.0

There is a considerable difference in earnings between the highest paid salesperson and the lowest paid salesperson at individual companies. While the highest paid salesperson at each of the reporting companies averaged over $50,000 in earnings, the lowest paid salesperson at those same companies received, on average, only $14,000.

TABLE 2

COMPARISON OF HIGHEST PAID AND LOWEST PAID SALESPERSONS ANNUAL EARNINGS

	Individual Low	Individual High	Average
Highest Paid Salesperson	$8,960	$161,000	$53,066
Lowest Paid Salesperson	5,250	30,000	14,421
Average Salesperson	7,104	45,000	22,898

ANNUAL SALES PRODUCED

Median sales per salesperson were $296,451. The average was very similar, at $302,626. 1978 sales produced by individuals ranged from a low of $35,000 to an individual high of $2,000,000. The lowest company average was $111,000 per salesperson. The average sales per salesperson increased markedly with company size. Some 70% of companies under $15 million reported average sales per salesperson below $300,000 while 64% of companies over $15 million reported average sales of over $300,000.

TABLE 3

AVERAGE ANNUAL SALES PER SALESPERSON – 1978

Company Size	Individual Salesperson Low	Individual Salesperson High	Company Average For Category	Distribution of Average Sales ($000)					
				% of Companies in Each Size Category					
				150 or less	151-200	201-250	251-300	301-400	Over 400
Under $3 million	$35,000	$425,000	$202,394	37.5	12.5	25.0	12.5	12.5	–
$3-8 million	$50,000	$930,000	$308,546	11.1	–	22.2	33.4	22.2	11.1
$8-15 million	$40,000	$1,100,000	$319,809	–	33.3	–	–	33.3	33.4
Over $15 million	$50,000	$2,000,000	$375,323	18.2	–	9.1	9.1	27.3	36.3

The average highest paid salesperson at each company produced approximately two and one-half times the annual sales of the average salesperson, and nearly five times the annual sales of the average lowest paid salesperson.

TABLE 4

COMPARISON OF SALES PRODUCED BY THE HIGHEST PAID AND LOWEST PAID SALESPERSON

ANNUAL SALES PRODUCED

	Individual Low	Individual High	Average
Highest Paid Salesperson	$204,000	$2,000,000	$756,125
Lowest Paid Salesperson	35,000	550,000	157,169
Average Salesperson	111,000	680,000	302,626

EARNINGS FOR SALES PRODUCED

There is a strong correlation between earnings and sales produced, although earnings do not increase in the same proportion as sales. Salespeople producing less than $250,000 in sales had earnings amounting to 11% of sales volume generated. At higher sales levels, earnings declined to some 7%.

TABLE 5

EARNINGS FOR SALES PRODUCED
% OF COMPANIES

Average Earnings Per Salesperson ($000)	Average Sales Per Salesperson ($000)						
	150 or less	151-200	201-250	251-300	301-400	Over 400	Total
11-15	3.2	3.2	–	–	–	–	6.4
16-20	12.9	3.2	9.7	3.2	–	–	29.0
21-25	–	–	3.2	9.7	12.9	9.7	35.5
26-30	–	3.2	3.2	–	3.2	6.5	16.1
Over 30	–	–	–	3.2	3.2	6.5	12.9
TOTAL	16.1	9.6	16.1	16.1	19.3	22.7	100.0

THE "AVERAGE" SALE

The average salesman writes 31 orders a month with an average order value of $916. The average order value increases with company size.

TABLE 6

AVERAGE ORDER SIZES

Company Size	Overall Order Size
Under $3 million	$ 513
$3-8 million	$ 938
$8-15 million	*
Over $15 million	$1,084
All Reporting Companies	$ 916
*Insufficient Data	

The average value of all orders (that is total sales divided by total orders), is approximately $916, while the majority of orders written by this sample of companies were over $550.

TABLE 7

RANGE OF AVERAGE ORDER SIZE
% of Companies In Each Company Size Category

Company Size	Average Order Size ($)					
	200 or less	200-400	400-600	600-800	800-1000	Over 1000
Under $3 million	–	42.9	28.6	14.3	14.3	–
$3-8 million	–	–	–	50.0	37.5	12.5
$8-15 million	–	–	–	50.0	–	50.0
Over $15 million	–	10.0	10.0	10.0	40.0	30.0
TOTAL	–	14.3	10.7	25.0	32.1	17.9

Based on this sample of companies, the average order costs $83 in salesperson earnings. Approximately 30% of the companies report average order compensation costs below $50 bringing the median order cost down to $67.

None of the companies report orders below $200. The under $3 million category has the highest proportion of orders in the $200-$400 range while the over $15 million category has the highest proportion of orders in the $800-$1,000 range. The $3-8 million companies were in the middle with 50% in the $600-$800 range.

TABLE 8

SALESPERSON COST OF AN ORDER
% of Companies In Each Company Size Category

Company Size	Average Salesperson Earnings Per Order ($)						
	25 or less	26-40	41-55	56-70	71-85	86-100	Over 100
Under $3 million	16.7	33.2	–	16.7	–	16.7	16.7
$3-8 million	–	–	42.9	14.2	–	42.9	–
$8-15 million	–	–	50.0	–	–	-	50.0
Over $15 million	–	–	40.0	20.0	10.0	10.0	20.0
TOTAL	4.0	8.0	32.0	16.0	4.0	20.0	16.0

SALES COMPENSATION PLANS

PLANS IN USE

Overall results for compensations plans show little variance from the 1976 survey which reported 8.7 percent of the companies with straight salary plans, 23.9% with straight commission, 39.1% with salary plus commission and 28.3% with combinations.

Within the size categories, results show an increase in straight commission plans and decrease in salary plus plans in the smaller companies. In the larger company size categories, combination plans have grown in popularity while straight salary plans are less common.

TABLE 9

COMPENSATION PLANS BY COMPANY SIZE
% of Companies In Each Size Category

Company Size	Straight Salary	Straight Commission	Salary Plus Commission	Combination Of Salary and Commission Plans
Under $3 million	11.1	55.6	33.3	–
$3-8 million	18.2	18.2	45.4	18.2
$8-15 million	–	–	50.0	50.0
Over $15 million	–	9.1	36.4	54.5
All Respondents	8.6	22.8	40.0	28.6

STRAIGHT SALARY PLANS

The average monthly salary paid to salespersons on straight salary was $1,458. Actual salaries ranged from $1,000 to $2,000 per month. The salary level varied primarily with experience and the previous year's volume. This marks a change from the 1976 survey in which the salary level varied more with years of service and territory than with the previous year's volume. The average salaried salesperson had seven years of forms experience and eight years of sales experience.

Average sales per salesperson of those companies with straight salary plans were up considerably from 1976. Whereas in 1976 half of the companies had $150,000 or less, in the current survey only one was less than $150,000. The average was $317,000 with 55% reporting over $300 and 44% reporting $135 to $250.

TABLE 10

SALARIES VARY WITH:
(% OF TOTAL MENTIONS)

Experience	33.3%
Previous Year's Volume	20.8
Years of Service	16.7
Territory	12.5
Products Sold	12.5
Quota	4.2
	100%

STRAIGHT COMMISSION PLANS

Most of the companies reported sales as the base for determining commissions under straight commission plans. Only 12% of the reporting companies based commissions on gross profit. The average earnings of salespersons under straight commission plans were $25,252 on $310,964 in sales. Actual earnings ranged from $7,104 to $36,279. Actual sales ranged from $135,000 to $680,000.

The rate of commission paid clustered around 9 and 10% with sales as a base, and 40% to 50% with gross profit as a base. Actual rates paid varied from 4% to 13% of sales, with 18% of the companies paying 10% and 18% paying 9% of sales as commission. Thirty-five percent of the companies allow a salesperson to draw against future commissions.

TABLE 11

PERCENT OF COMPANIES REPORTING STRAIGHT COMMISSION PLANS

	Commission Rates As Percent Of Base										
Base	4	7	8	9	10	11	12	13	40	50	Total
Sales	5.9	11.8	11.8	17.6	17.6	5.9	5.9	11.8			88.3
Gross Profit									5.9	5.9	11.8

TABLE 12

AVERAGE SALES PER SALESPERSON FOR STRAIGHT COMMISSION ONLY PLANS
($000)

	150 or less	151-200	201-250	251-300	301-400	Over 400
Percent of Companies	14%	–	29%	29%	14%	14%

SALARY PLUS COMMISSION PLANS

The median commission rate paid to salary plus salespersons of 5% was nearly half of the straight commission rate, and the base salary paid of $750 per month was almost one fourth of the average straight paid. The average salesperson in a salary plus commission only plan earned $20,118 on $273,572 in sales.

TABLE 13

MONTHLY BASE SALARY AND COMMISSION RATES
Percent of Companies with Salary Plus Plans

Commission Rate % Of Sales	Monthly Base Salary ($000)						
	500 or less	501-600	601-700	701-800	801-1000	Over 1000	Total
3 or less	11.1	–	–	–	5.6	5.6	22.3
4-5	16.6	5.6	–	16.6	16.6	–	55.4
6 or more	11.1	–	–	–	5.6	5.6	22.3
TOTAL	38.8	5.6	–	16.6	27.8	11.2	100.0

TABLE 14

AVERAGE SALES PER SALESPERSON FOR SALARY PLUS ONLY PLANS
($000)

	150 or less	151-200	201-250	251-300	301-400	Over 400
Percent of Companies	27%	13%	7%	20%	13%	20%

COMMISSION RATES

Commission rates were found to vary with a number of factors under both straight commission plans and salary plus plans. As in 1976, the selling price was the major reason for varying the commission rate followed by product sold and profit from the sale.

TABLE 15

COMMISSION RATES VARY WITH:
(% OF TOTAL MENTIONS)

Selling Price	36%
Product Sold	23
Profit	21
New Business	8
Order Size	5
New Product	3
Special Promotion	2
Over or under bookprice	2
	100%

Where product sold was the variant, the highest rate was paid for continuous custom and unit sets and the lowest rate was paid for continuous stock.

TABLE 16

AVERAGE COMMISSION RATES PAID FOR PRODUCTS WHERE RATE VARIED*

Continuous Custom	7.0%
Unit Sets	7.0%
Continuous Stock	3.5%

*Average of straight commission and salary plus rates.

Where selling price was the variant, the salesperson shared 25% of any price decrease and 35% of any price increase.

SALESPERSON EARNINGS AND COMPENSATION PLANS

There is a distinct relationship between the type of compensation and average earnings.

As in 1976 straight commission plans generally produced the highest earnings, and salary plans produced the lowest. Straight commission plans accounted for all of the companies with average sales compensation above $30,000. Salary plus plans had the highest percentage in the $16,000 to $20,000 and $21,000 to $25,000 categories. Combination companies increased considerably in the $26,000 to $30,000 category from the previous survey with companies reporting 11.8% compared to 2.5% in 1976.

TABLE 17

EARNINGS AND COMPENSATION PLAN
PERCENT OF COMPANIES

Compensation Plan Type	Average Annual Earnings Per Salesperson ($000)					
	10 or less	11-15	16-20	21-25	26-30	Over 30
Straight Salary	–	2.9	6.0	–	–	–
Straight Commission	2.9	–	2.9	6.0	–	11.8
Salary Plus Commission	–	6.0	17.6	17.6	2.9	–
Combination	–	–	2.9	8.8	11.8	–
TOTAL	2.9	8.9	29.4	32.4	14.6	11.8

These earnings results are dependent on the sale volume actually produced so that one cannot say one plan is more costly (in compensation) than another per se from these data. In order to evaluate the earnings effects of each of these compensation plans, respondents were asked to indicate what sales earnings would result if the salesperson produced $100,000 and $400,000 in annual sales. On this standard basis, the salary plus plans produced the highest earnings on $100,000 in sales and the straight commission plans produced the highest on $400,000 in sales.

TABLE 18

AVERAGE SALES EARNINGS ON SALES OF:

Plan Type	$100,000	$400,000
Straight Salary	$10,700	$32,080
Straight Commission	10,888	37,861
Salary Plus Commission	12,324	30,442

TABLE 19

AVERAGE EARNINGS ON $100,000 SALES
PERCENT OF ALL COMPANIES

Plan Type	Annual Earnings ($000)				
	Under 10	10	11-12	13-15	Over 15
Straight Salary	–	3.0	3.0	–	–
Straight Commission	9.0	6.0	3.0	9.0	–
Salary Plus Commission	6.0	3.0	12.1	15.2	6.0
Combination	9.0	–	3.0	12.1	–
TOTAL	24.2	12.1	21.2	36.4	6.0

TABLE 20

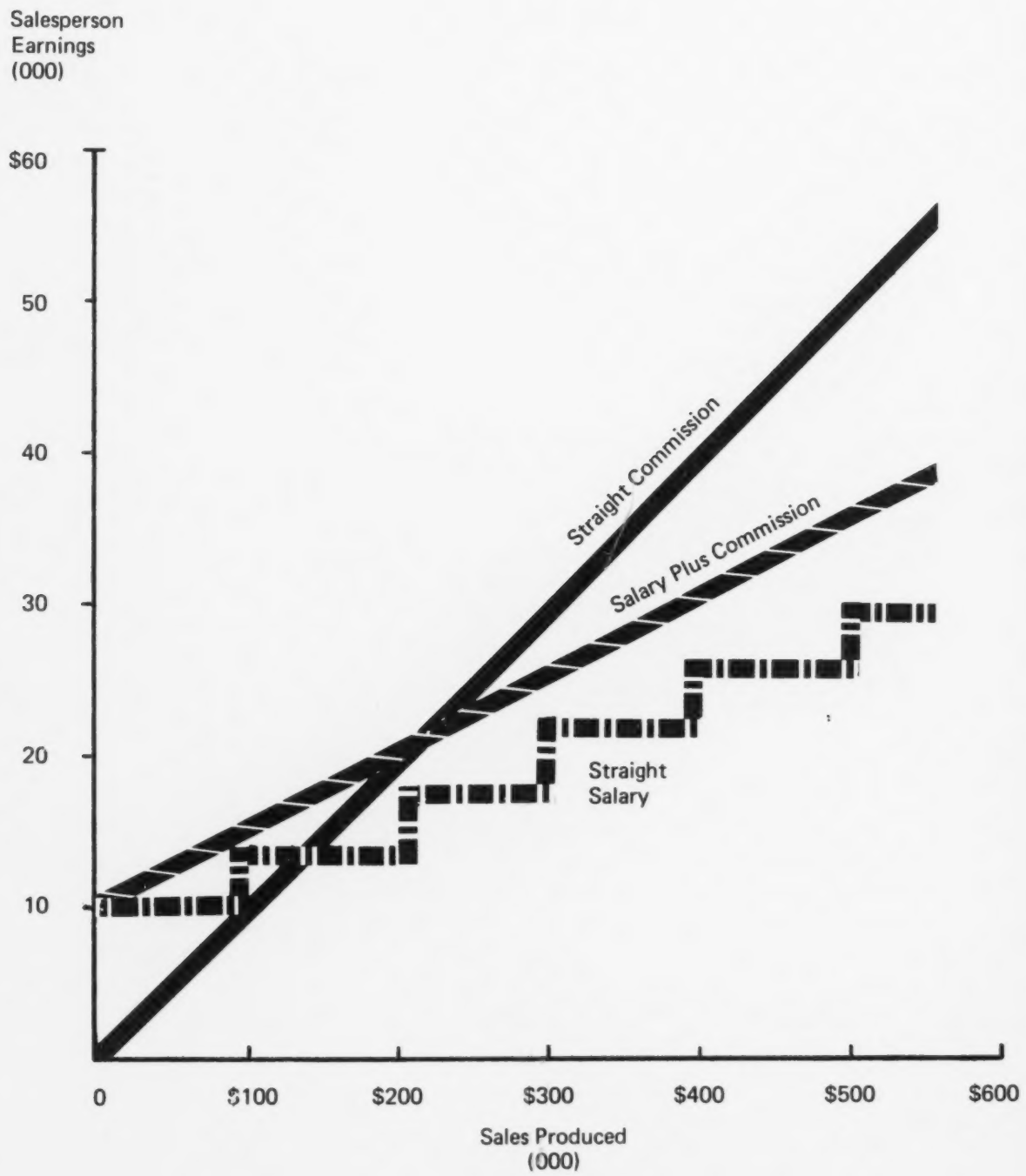
AVERAGE EARNINGS ON $400,000 SALES
PERCENT OF ALL COMPANIES

Plan Type	Annual Earnings ($000)					
	25 or less	26-30	31-39	40	41-50	Over 50
Straight Salary	–	5.7	–	–	–	–
Straight Commission	2.9	5.7	5.7	5.7	–	5.7
Salary Plus Commission	17.1	8.6	11.4	–	2.9	2.9
Combination	5.7	5.7	8.6	–	–	5.7
TOTAL	25.7	25.7	25.7	5.7	2.9	14.3

CHART 1

SALES EARNINGS FOR SALES PRODUCED

A Comparison Of Compensation Plans



This relationship between earnings, sales, and plan type can best be appreciated through a graph. This graph shows what happens to salesperson earnings as sales produced increases under each of the compensation plan types. The earnings for salaried salespersons were assumed to be fixed over $100,000 ranges of sales, and would increase in a step-wise fashion, beginning with a base salary of $10,000. The earnings for straight commission salespersons are set at 10% of sales. The sales earnings for salary plus plans include a base salary of $10,000 and a commission rate of 5% of sales.

The particularly noteworthy point about the graph is the relationship between straight commission and salary plus earnings. Up to $200,000 in sales, the salary plus structure generates higher sales earnings, but beyond $200,000 in sales the straight commission plan generates the higher earnings. Not coincidentally, the $200,000 sales amount represents the typical annual sales of an average salesperson. As long as the salesperson produces an average sales volume, the compensation plan will have a neutral effect on his earnings. Altering this assumed relationship between straight commission and salary plus, of course, would affect the sales level where compensation under the two plans would be equal. Setting the salary plus commission rate at less than half of the straight commission rate (or lowering the base pay) would lower the sales volume point at which the plans would generate equal earnings. Conversely, setting the salary plus commission rate at more than half of the straight commission rate (or increasing the base pay) would raise the sales volume point at which the plans would generate equal earnings. Companies evaluating the merits of salary plus versus straight commission plans should find a simple chart like this useful for developing a compensation system that best suits its situation.

BENEFITS, ALLOWANCES AND OTHER COMPENSATION

The basic compensation plan is the most important element in the total compensation package. The basic plan can be augmented by a number of other monetary incentives including fringe benefits, bonuses, and allowances.

FRINGE BENEFITS

The average fringe package costs $2,277 per salesperson annually, ranging from a low of $305 to a high of $5,400. Eighty-eight and six tenths percent of the respondents provide life insurance, accident and health and hospital benefits. Sixty percent provide pension plans. Seventeen percent provide dental care, 14% have profit-sharing plans, and 14% provide a variety of other benefits such as stock options or savings plans.

BONUS

Although the bonus is often cited as an important incentive, only 23% of the respondents paid a bonus in 1978. This compares to 30% in 1976. The average amount of bonus was $971. The lowest bonus was $250 and the highest was $1,463. While in 1976 companies in the largest size category had the highest percentage of bonuses, in 1978, the highest percentage was in the $3 to $8 million category.

TABLE 21

PERCENT OF COMPANIES PAYING BONUS BY COMPANY SIZE

Under $3 million	11.1%
$3-8 million	36.4%
$8-15 million	— %
Over $15 million	27.3%

ALLOWANCES

The survey looked at automobile, entertainment and gift allowances. In the majority of companies these expenses are reimbursed to the salesperson but the methods of reimbursement differ.

Automobile allowances: Only 12% of the companies provide the salesperson with an automobile, but 79% of the companies reimburse the salesperson for automobile expenses. Of these companies which reimburse 68% pay a flat amount to the salesperson and the remainder reimburse according to use.

TABLE 22

METHODS OF REIMBURSING AUTOMOBILE EXPENSES
Percent of Companies Which Reimburse

	Flat Amount		On Useage		Both
Less than $200	11%	50% of cost	3%	$175 + $.13/mile	4%
$160-$200	11%	$.17/mile	7%	$20	4%
$100-$150	25%	$.15/mile	7%		–
< $100	7%	Other	3%		–
No Amount Given	14%	No Amount Given	4%		–
	68%		24%		8%

Entertainment allowances: Twenty-three percent of salespersons absorb their own entertainment expenses. Of the companies which reimburse these expenses, 63% pick up the whole amount.

TABLE 23

METHODS OF REIMBURSING ENTERTAINMENT EXPENSES
Percent of Companies

Absorbed By Salesperson		23%
Both		6%
Reimbursed:		71%
100%	44%	
50%	3%	
$200/month	3%	
$150/month	3%	
$ 60/month	3%	
$ 50/month	6%	
Other	9%	

Gift allowances: The responding companies vary by only 10% on reimbursing expenditures for gifts, and the extent of this allowance is less than the other allowances, although up slightly from the previous survey.

TABLE 24

METHOD OF REIMBURSING GIFT EXPENSES
Percent of Companies

Absorbed By Salesperson		43%
Both		3%
Reimbursed		53%
	100%	33%
	50%	10%
	$100/year	3%
	Other	7%

SALES MANAGEMENT PRACTICES

This survey investigated a number of sales/management practices including hiring and training salespersons, assigning and controlling sales activities, and other practices such as the use of contracts, charges for reruns and bad debts, and concession policies.

HIRING AND TRAINING

The primary source of new salespersons is experienced salespersons from the forms industries. Experienced non-forms salespersons and raw recruits constitute the second largest source with 25% and 24% respectively. Compared to 1976, there was an increase in use of experienced non-forms salespersons; 18% in 1976 to the current 25%.

The practice is consistent across company size categories, the mix of sources varies somewhat by company size. As in 1976, the smaller companies place less emphasis on (or are not able to attract) experienced forms salespersons relying more instead on salespersons from outside the industry and on new recruits. Unlike the 1976 survey, the largest companies have decreased their reliance on experienced forms salespersons and increased their use of non-forms salespersons and new recruits.

TABLE 25

SOURCES OF NEW SALESPERSONS
Percent of Companies In Each Size Category

	Experienced Forms Salesperson	Experienced Non-Forms Salesperson	Non-Sales Company Personnel	Raw Recruits
Under $3 million	42%	25%	–%	33%
$3-$8 million	54	20	13	13
$8-$15 million	40	20	20	20
Over $15 million	30	30	13	27
TOTAL	40	25	11	24

Sixty-four percent of the companies have some sort of training program. As one would expect, those companies without training programs hire a greater percentage of experienced forms salespersons and those with training programs have a higher percentage of new recruits and experienced non-forms salespersons. This is contrary to the 1976 survey results which were not consistent with expectations. Also, unlike 1976, there is a greater percentage of non-forms salespersons in those companies which have training programs.

TABLE 26

TRAINING PROGRAMS AND SOURCES OF NEW SALESPERSONS
Percent of Companies

	Experienced Forms Salesperson	Experienced Non-Forms Salesperson	Non-Sales Company Personnel	Raw Recruits	
YES	29%	29%	13%	29%	100%
NO	67%	17%	5%	11%	100%

The two largest company size categories show a higher incidence of company training than the two lower categories. However, unlike the 1976 survey results, company training does not increase proportionally with company size. Perhaps smaller companies have stepped up their sales training efforts.

TABLE 27

TRAINING PROGRAMS BY COMPANY SIZE
Percent of Companies In Each Size Category

	YES	NO
Under $3 million	56%	44%
$3-$8 million	55	45
$8-$15 million	75	25
Over $15 million	64	36

SALES ASSIGNMENTS

In the majority of companies, the sales manager controls the sales activities by assigning the sales force to specific markets and prospects. The most common market assignment is a geographic territory followed by amount of sales volume or potential.

TABLE 28

SALES ASSIGNMENTS
Percent of Companies In Each Size Category

	Geographic	Product	User Industry	Sales Volume	Other
Under $3 million	55%	–	9%	27%	9%
$3-$8 million	44	6	19	25	6
$5-10 million	50	–	–	25	25
Over $10 million	45	15	20	20	–
ALL	47%	8%	16%	23%	6%

Smaller companies are more likely to leave the salesperson to develop his own prospects than larger ones, and less likely to provide prospect lists than larger ones. Smaller companies are also more likely to leave the salesperson alone to develop business where they find it.

TABLE 29

CUSTOMER PROSPECTS
Percent of Companies In Each Size Category

	Salesperson Given List	Salesperson Prospects At Will	Salesperson Left Alone To Develop
Under $3 million	25%	50%	25%
$3-$8 million	53	27	20
$8-15 Million	100	–	–
Over $15 million	56	22	22
ALL	49%	30%	21%

SALES CONTROLS

Overall volume quotas are the primary sales controls used to evaluate individual salesperson performance. The companies showed a marked decline from 1976 in quotas for specific accounts. Whereas in 1976 21% of the companies reported overall quotas plus account quotas, in 1979 there were none.

The larger companies rely more on overall quotas plus new business while the smaller ones have a greater percentage of overall quotas.

TABLE 30

SALES CONTROLS
Percent of Companies In Each Size Category

Type of Control	Under $3 million	$3-8 million	$8-15 million	Over $15 million	All
None	33	36	75	9	31
Overall Quota:	44	27	–	9	22
Plus Product Quota	–	9	–	9	6
Plus Account Quota	–	–	–	–	–
Plus Account and New Business Quotas	–	–	–	18	6
Plus Product and New Business Quotas	–	9	–	9	6
Plus Product and Account Quotas	–	–	–	9	3
Plus New Business or Other Quotas	11	18	25	27	20
Product Quotas	–	–	–	9	3
New Business Quotas	–	–	–	–	–
Account Quotas	–	–	–	–	–
Product and New Business Quotas	11	–	–	–	3
	100%	100%	100%	100%	100%

PROFIT CONTROLS

Profit objectives are not used to the extent that sales controls are used to evaluate individual performance. Thirty-seven percent of the companies have no salesperson profit objectives. Fifty-six percent of these are in the smallest company size category. Over half of the companies with some objectives for salespersons use only an overall objective. The most common additional profit objective is product profitability as opposed to account profitability in the 1976 survey.

TABLE 31

PROFIT CONTROLS FOR SALESPERSONS
Percent of Companies In Each Size Category

Type of Control	Under $3 million	$3-8 million	$8-15 million	Over $15 million	All
None	56	46	25	18	37
Overall Objective:					
Plus Account Objectives	33	36	50	37	37
Plus Product Objectives	–	18	–	18	11
Plus Product and Account Objectives	–	–	–	9	3
Plus Other Objectives	–	–	–	–	–
Account Objectives Only	–	–	–	9	3
Product Objectives Only	–	–	25	9	6
Account and Product Objectives Only	–	–	–	–	–
Other	11	–	–	–	3
	100%	100%	100%	100%	100%

OTHER SALES MANAGEMENT PRACTICES

Charges for reruns: Overall, a majority of companies charge salespersons for errors that result in returns and reruns. The practice varies, however, in relation to company size, with the smaller companies less likely to charge the salesperson than the larger ones. Of those companies that charge the salesperson, in most cases the charge is a loss of commission on the portion of the job returned or rerun.

TABLE 32

CHARGES FOR RETURNS AND RERUNS
Percent of Companies In Each Size Category

	Salesperson Charged	Salesperson Not Charged
Under $3 million	44%	56%
$3-8 million	45	55
$8-15 million	100	–
Over $15 million	82	18
ALL	63%	37%

TABLE 33

BASIS OF CHARGE FOR RETURNS AND RERUNS
Percent of Companies With Charges

BASIS		
Loss of Commission on Proportion Rerun or Returned		59%
Sales Credit Reduction		9%
Cost Based Charges		14%
50% of Cost	9.3%	
50% of Cost Up to $200	4.7%	
Other Charge Bases		18%
3 times Commission	4.5%	
5-10% of List	9.0%	
"Negotiable"	4.5%	

Charges for uncollected accounts: Fifty-seven percent of all the companies charge the salesperson for uncollected accounts. In all the size categories, the majority of reporting companies make some charge against the salesperson for uncollected accounts. However, the smaller companies (under $3 million and $3-8 million) levy these charges to an even greater extent than do the larger companies. As in the 1976 survey, the predominant basis of the charge is loss of the commission from the sale.

TABLE 34

CHARGES FOR UNCOLLECTED ACCOUNTS
Percent of Companies In Each Size Category

	Salesperson Charged	Salesperson Not Charged
Under $3 million	56%	44%
$3-8 million	64	36
$8-15 million	50	50
Over $15 million	55	45
ALL	57%	43%

TABLE 35

BASIS OF CHARGE FOR UNCOLLECTED ACCOUNTS
Percent of Companies With Charges

BASIS	
Loss of Commission	76%
Loss of Commission and Volume for Salary Credit	9%
Other Bases:	15%
100% Charged to Sales	
Sales Credit	
"Negotiable"	

Concession policies: Sixty-four percent of the companies give the salesperson some discretion in increasing or decreasing price from list. A majority of the companies fall into the 15% range as compared to zero in the 1976 survey. In terms of company size it appears that the larger companies give salespersons more pricing flexibility.

TABLE 36

SALESPERSON'S CONCESSION AUTHORITY
Percent of Companies In Each Size Category

	Percent Below Base Quote Or List							
	0	5%	10%	15%	20%	25%	More than 25%	Open
Under $3 million	14%	–	14%	14%	–	14%	14%	30%
$3-8 million	–	29%	14%	29%	14%	14%	–	–
$8-15 million	–	–	–	50%	–	–	–	50%
Over $15 million	20%	–	20%	20%	20%	20%	–	–
ALL	1%	10%	14%	24%	10%	14%	4%	14%

Contracts: Forty-six percent of the companies have contracts for salespersons. Such practices are most often found in the largest companies. Among the smaller companies, however, the $3 million group has the highest percentage of contracts. This marks a change from the 1976 survey in which the percentage of companies giving contracts increased proportional to company size.

TABLE 37

CONTRACTS FOR SALESPERSONS
Percent of Companies In Each Size Category

	With Contracts
Under $3 million	44%
$3-8 million	27%
$8-15 million	100%
Over $15 million	55%
ALL	46%

SALES MANAGEMENT PRACTICES AND PERFORMANCE

With so many alternative management practices available, the question arises whether they make any difference in the performance of the salesperson or of the company. This survey provided a number of measures with which to evaluate the effectiveness of various practices. These are summarized in the following matrix:

SALES MANAGEMENT PRACTICES	MEASURES OF PERFORMANCE
Compensation Plan Type	Sales Volume Produced Per Salesperson
Sales Controls	Gross Profit On Direct Sales
Profit Controls	Ratio Of Sales Compensation To Direct Sales
Sales Assignments	Average Compensation Cost Per Order
Prospect Lists	Sales Force Turnover

Based on the results of this study only one measure of performance, the average compensation cost per order, differed significantly among companies because of sales management practices. Those practices which created the difference were the compensation plan type and prospect lists. This conclusion does not mean that the other sales management practices have no effect on an individual company's performance. What these data do indicate is that there is no right or wrong plan per se. It is the circumstances of the company that should determine the sales management practices.

The following tables summarize the results of these tests of performance for the responding companies.

AVERAGE COMPENSATION COST PER ORDER

This statistic was computed by dividing the average salesperson's earnings by the average number of orders written per salesperson. The survey data show that this salesperson cost of an order is lower for salary and salary plus commission plans than for straight commission plans. Also, companies which give salespersons lists of assigned prospects have lower compensation costs per order than those which do not.

ANNUAL SALES VOLUME PRODUCED PER SALESPERSON

The existence of sales controls does make a marginal difference in whether the company is above or below average in sales per salesperson, but the magnitude of sales is not dependent on the extent of controls. The sales volume per salesperson was not found to be dependent on the compensation plan or the methods of sales assignment.

COMPENSATION RATIO

This performance measure is the ratio of total direct sales compensation to total direct sales. At these sales volumes per salesperson there is no significant difference among companies in the compensation ratio due to any of the sales management practices. The average direct compensation ratio for the responding companies was 9.7%. By Company size the ratios were:

Under $3 million	11.6%
$3-8 million	9.2%
$8-15 million	9.9%
Over $15 million	9.2%

TABLE 38

SALESPERSON COST OF AN ORDER
Percent of Companies

	Average Compensation Cost Per Order							
	$25 or less	$26-40	$41-55	$56-70	$71-85	$86-100	Over $100	Total
Distribution of Responses COMPARISON BY SALES MANAGEMENT PRACTICES	4.0	8.0	31.0	15.0	4.0	11.0	27.0	100%
Compensation Plan Type								
Straight Salary	–	4.0	–	–	–	–	–	
Straight Commission	4.0	4.0	–	4.0	4.0	4.0	4.0	100%
Salary Plus	–	–	19.0	11.0	–	4.0	8.0	
Combination	–	–	12.0	–	–	4.0	15.0	
Sales Assignments								
Products or Accounts	–	2.0	12.0	7.0	–	5.0	5.0	
Geographically	2.0	2.0	12.0	7.0	2.0	5.0	15.0	100%
User industry type	–	2.0	2.0	–	–	5.0	7.0	
None	–	–	2.0	–	–	–	2.0	
Prospects								
Given List	4.0	–	21.0	8.0	4.0	–	12.5	100%
At Will	4.0	4.0	12.5	4.0	4.0	–	21.0	
Sales Controls								
None	4.0	–	4.0	4.0	–	7.0	7.0	
Overall Quota	–	7.0	7.0	4.0	–	–	4.0	
Overall Quota Plus Product, Account or New Business	–	–	15.0	7.0	4.0	–	15.0	100%
Quotas on Products or Accounts Only	–	–	4.0	–	–	4.0	–	
Quotas on New Business Only	–	–	–	–	–	4.0	–	
Profit Controls								
None	–	8.0	14.0	–	–	–	8.0	
Overall Objective	4.0	–	4.0	11.5	4.0	8.0	8.0	
Overall Objective Plus Product and Account Objectives	–	–	4.0	4.0	–	–	8.0	100%
Product or Account Objectives Only	–	–	8.0	–	–	4.0	4.0	

TABLE 39

SALES PRODUCTIVITY PER SALESPERSON
Percent of Companies

SALES MANAGEMENT PRACTICE	Average Annual Sales Per Person ($000)						
	150 or less	151-200	201-250	251-300	301-400	Over 400	Total
Compensation Plan Type							
Straight Salary	–	–	3.1	–	–	–	
Straight Commission	3.1	–	6.3	6.3	3.1	6.3	100%
Salary Plus	12.5	6.3	3.1	9.4	6.3	9.4	
Combination	3.1	3.1	3.1	–	12.5	3.1	
Sales Assignments							
Products or Accounts	4.1	2.0	6.1	6.1	10.2	4.1	
Geographically	12.2	4.1	4.1	10.2	8.2	8.2	100%
User Industry Type	4.1	–	2.0	4.1	6.1	–	
None	–	–	2.0	–	2.0	2.0	
Prospects							
Given List	3.6	3.6	10.7	14.3	14.3	7.1	100%
At Will	7.1	7.1	10.7	3.6	10.7	7.1	
Sales Controls							
None	–	3.0	–	6.0	6.0	6.0	
Overall Quota	3.0	6.0	9.0	3.0	–	3.0	
Overall Quota Plus Product, Account or New Business	12.1	–	6.0	6.0	15.2	6.0	100%
Quotas On Products or Accounts Only	3.0	–	–	–	–	3.0	
Quotas On New Business Only	3.0	–	–	–	–	–	
Profit Controls							
None	3.1	–	15.6	3.1	3.1	6.3	
Overall Objective	6.3	6.3	–	12.5	12.5	3.7	
Overall Objective Plus Product and Account Objectives	6.3	–	–	–	6.3	3.7	100%
Product or Account Objectives Only	3.1	3.1	–	–	–	6.3	

TABLE 40

COMPENSATION RATIO
Percent of Companies

	Direct Sales Compensation Percent of Direct Sales					
	5% or less	6-8%	9-11%	12-14%	15% or more	Total
Distribution of Responses SALES MANAGEMENT PRACTICE	**16.7**	**26.6**	**33.4**	**13.3**	**10.0**	**100%**
Compensation Plan Type						
Straight Salary	6.7	–	–	–	3.3	
Straight Commission	–	10.0	6.7	–	6.7	100%
Salary Plus	–	13.3	20.0	10.0	–	
Combination	10.0	3.3	6.7	3.3	–	
Sales Assignments						
Products or Accounts	6.4	8.5	8.5	4.3	4.3	
Geographically	6.4	10.6	17.0	6.4	4.3	100%
User Type Industry	2.1	2.1	8.4	–	2.1	
None	2.1	4.3	2.1	–	–	
Prospects						
Given List	8.0	28.0	12.0	12.0	–	100%
At Will	4.0	12.0	12.0	4.0	8.0	
Sales Controls						
None	9.4	6.3	6.3	–	3.1	
Overall Quota	–	3.1	12.5	–	3.1	
Overall Quota Plus Product, Account, or New Business	6.3	15.6	12.5	9.4	3.1	100%
Quotas on Product or Accounts Only	–	–	3.1	3.1	–	
Quotas On New Business Only	–	–	–	3.1	–	
Profit Controls						
None	3.4	13.9	6.9	3.4	–	
Overall Objective	6.9	10.4	13.9	6.9	3.4	
Overall Objective Plus Product and Account Objectives	6.9	–	6.9	3.4	3.4	100%
Product or Account Objectives Only	–	3.4	3.4	–	3.4	

TABLE 41

GROSS PROFIT ON DIRECT SALES
Percent of Companies

	15% or less	16-20%	21-25%	26-30%	Over 30%	Total
Distribution of Responses SALES MANAGEMENT PRACTICES	17.2	20.7	20.7	20.7	20.7	100%
Compensation Plan Type						
Straight Salary	3.4	–	–	3.4	–	
Straight Commission	6.9	6.9	6.9	3.4	17.2	100%
Salary Plus	–	6.9	13.8	10.8	16.7	
Combination	6.9	6.9	–	3.4	3.4	
Sales Assignments						
Products or Accounts	6.7	8.9	4.4	4.4	6.7	
Geographically	4.4	11.1	8.9	6.7	13.3	100%
User Type Industry	2.2	6.7	–	2.2	6.7	
None	–	–	2.2	4.4	–	
Prospects						
Given List	4.5	4.5	13.6	18.2	13.6	100%
At Will	9.1	4.5	9.1	13.6	9.1	
Sales Controls						
None	3.3	10.0	–	10.0	–	
Overall Quota Plus Product, Account or New Business	6.7	–	6.7	10.0	–	
Quotas on Product, Account or New Business	6.7	6.7	10.0	–	20.0	100%
Quotas on Products or Accounts Only	–	3.3	3.3	–	–	
Quotas on New Business Only	–	3.3	–	–	–	
Profit Controls						
None	10.3	–	3.4	3.4	6.8	
Overall Objective	3.4	10.3	10.3	13.8	6.8	
Overall Objective Plus Product and Account Objectives	3.4	3.4	3.4	–	6.8	100%
Product or Account Objectives Only	–	6.8	3.4	3.4	–	

GROSS PROFIT ON DIRECT SALES

The level of gross profit on direct sales is not significantly affected by sales management practices. Even the existence of profit controls on individual salespersons does not result in differences from companies with no profit controls.

The largest companies tended to earn the highest levels of gross profit. Thirty-eight percent of the reporting companies earned less than 21% on direct sales. While in the 1976 survey the largest size companies showed the poorest gross profit performance, 1978 results show the lowest performance in the smallest size companies (in which half grossed less than 21% on direct sales) and in the $8-15 million (with two-thirds of the companies grossing less than 21%).

TABLE 42

GROSS PROFIT ON DIRECT SALES BY COMPANY SIZE

Percent of Companies in Each Size Category

	GROSS PROFIT					
	15% or less	16-20%	21-25%	26-30%	Over 30%	Total
Under $3 million	25.0%	25.0%	25.0%	12.5%	12.5%	100%
$3-8 million	22.2	11.1	11.1	22.2	33.3	100%
$8-15 million	33.3	33.3	–	–	33.3	100%
Over $15 million	–	22.2	33.3	22.2	22.2	100%

SALES FORCE TURNOVER

A final way to evaluate the effectiveness of sales management is through the turnover rate. If turnover represents the extent that the company meets the goals of the salesperson, a low turnover rate would include that the sales management system is at least not a negative influence on the salesperson. A high turnover rate should prompt the company to evaluate its salesperson selection process in light of the kinds of incentives the company can offer, or to adjust its incentive system toward the needs of individual salespersons.

Companies under $3 million have the lowest turnover percentage with 75% reporting 5% or less. The $8-15 million companies were also low with 50% showing 5% or less. The $3-8 million and over $15 million companies reported the highest turnover rates. These statistics support the widely held belief that the sales forces of the larger companies tend to serve as training grounds. Informal evidence suggests that this phenomenon is due more to tighter sales management practices than to lower salesperson earnings.

All of the companies with average earnings of $10 million or less had a turnover rate of 5% or less. With earnings of $11-15 million the amount of average earnings does not significantly affect the turnover rate among companies. At companies over $15 million, the turnover rate drops as average compensation rises.

TABLE 43

TURNOVER RATE BY COMPANY SIZE
Percent of Companies In Each Size Category

	TURNOVER RATE				
	5% or less	6-10%	11-15%	16-25%	Over 25%
Under $3 million	75%	–%	–%	12%	13%
$3-8 million	10	10	30	40	10
$8-15 million	50	25	–	–	25
Over $15 million	18	18	9	27	27

TABLE 44

TURNOVER RATE AND AVERAGE ANNUAL SALESPERSON EARNINGS
Percent of Companies In Each Earnings Market

	TURNOVER RATE				
Annual Earnings ($000)	5% or less	6-10%	11-15%	16-25%	Over 25%
10 or less	100%	–%	–%	–%	–%
11-15	33	–	–	33	33
16-20	22	–	11	33	33
21-25	18	18	27	27	9
26-30	50	25	–	–	25
Over 30	50	25	–	25	–
ALL	31%	13%	13%	25%	19%

Whereas in the 1976 survey salespersons on straight salary experienced the lowest turnover rate, in 1978 straight commissioned salespersons had the lowest, with two-thirds of the companies falling into the 5% or less category. As before the salary plus commission group had the highest turnover experience with 60% of the respondents in the 16-25% and over 25% categories.

On the basis of sales assignments, those companies using products or accounts as a basis had the highest percentage in the 5% or less category while geographic assignments had the highest rates.

Those companies with overall sales controls quotas had the lowest turnover experience, although those with none had a high percentage in the 5% category as well.

Those companies without profit controls had the lowest turnover experience. Fifty percent of the companies with overall objectives and 75% of those with product and discount objectives were in the 16 to over 25% range.

TABLE 45

SALES FORCE TURNOVER
Percent of Companies

SALES MANAGEMENT PRACTICES	TURNOVER RATE					
	5% or less	6-10%	11-15%	16-25%	Over 25%	Total
Compensation Plan Type						
Straight Salary	2.9	–	–	2.9	–	
Straight Commission	17.6	2.9	2.9	2.9	–	100%
Salary Plus	5.9	8.8	2.9	14.7	11.8	
Combination	8.8	–	5.9	2.9	5.9	
Sales Assignments						
Products or Accounts	13.2	1.9	5.7	5.7	7.5	
Geographically	9.4	5.7	5.7	13.2	9.4	100%
User Type	1.9	–	1.9	5.7	5.7	
None	1.9	1.9	1.9	1.9	–	
Prospects						
Given List	14.3	10.7	10.7	14.3	7.1	100%
At Will	21.4	3.6	7.1	3.6	7.1	
Sales Controls						
None	17.1	–	–	5.7	5.7	
Overall Quota	14.3	–	2.9	2.9	–	
Overall Quota Plus Product, Account or New Business	2.9	11.4	8.6	11.4	8.6	100%
Quotas on Products or Accounts Only	–	–	–	2.9	2.9	
Quotas On New Business Only	–	–	–	–	2.9	
Profit Controls						
None	17.6	2.9	5.9	5.9	–	
Overall Objective	14.7	5.9	–	11.8	8.8	
Plus Product and Account Objectives	–	2.9	5.9	2.9	2.9	100%
Product or Account Objectives Only	2.9	–	–	2.9	5.9	

CONCLUSIONS

The problems of balancing the company's goals with the goals and needs of the individual are always obstacles to maximizing the company's and the individual's performance. As the data from this survey indicate, attempts by companies to impose controls on the salesperon's activities sometimes has the effect of limiting the salesperson's realization of his potential. In the aggregate, companies in this survey which imposed a moderate amount of structure on the salesperson tended to perform slightly better than those which either gave the salesperson carte blanche, or which so closely directed his activities. This conclusion would be compatible with the kind of personality typically associated with salesperons. Their motivational level would be ego or socially oriented. They require some independence to satisfy these needs. Being self-oriented, however, they need some structure to assure that the goals of the company are also being met. In the final analysis, it is the motivational level of the individual that should determine the degree of control over how he does his job. A security oriented individual should not be expected to venture off on his own but will require considerable direction from the sales manager. The further the individuals needs from the job move from security to self-fulfillment, the less direct control he needs to meet his goals.

SALES MANAGERS

In a majority of companies sales managers are expected to do some selling. Only 33% of the sales managers at responding companies had no selling responsibilities. The remaining two-thirds contributed sales ranging in dollar volume from $30,000 per year to $2 million per year with an average of $405,456. Fifty-two percent of the companies gave the sales managers additional compensation for these sales.

TABLE 46

SALES MANAGER'S PERSONAL SALES
Percent of Companies In Each Size Category

	($000)						
	100 or less	101-150	151-200	201-250	251-400	Over 400	None
Under $3 million	22.2	–	22.2	–	11.1	11.1	33.3
$3-8 million	18.2	9.1	–	9.1	9.1	27.3	27.3
$8-15 million	25.0	–	25.0	–	25.0	25.0	–
Over $15 million	9.1	9.1	–	9.1	9.1	9.1	54.5
TOTAL	14.7	5.9	8.8	5.9	11.8	17.6	35.3

COMPENSATION METHODS AND EARNINGS

Most sales managers (57.2% of the responding firms) are paid a straight salary, whether they do any selling or not. Another sizeable group are paid a salary plus commission on personal sales. Only a few receive a genuine override (commission on all sales made under their supervision).

Total earnings of sales managers varied greatly, from a low of $19,500 to a high of $75,000. From the managers' point of view, the most lucrative arrangement was salary plus commission, which provided an average annual compensation of $41,100. Not surprisingly, the smallest compensation was received by sales managers on straight salary who did no personal selling; their average earnings were $33,800.

It is interesting that there is little apparent connection in this year's sample between managers' earnings and company size, gross profits, or product/distribution categories.

TABLE 47

RANGE OF SALES MANAGERS EARNINGS BY COMPENSATION METHOD
Percent of Companies

	EARNINGS ($000)						
COMPENSATION METHOD	**25 or less**	**26-30**	**31-35**	**36-40**	**41-50**	**51+**	**Total**
Straight Salary, No Personal Sales	5.7	8.6	8.6	–	2.9	2.9	28.7
Straight Salary*	5.7	5.7	5.7	8.5	2.9	–	28.5
Salary Plus Commission	–	11.3	5.7	2.9	5.7	5.7	31.3
Salary Plus Override	–	–	2.9	5.7	2.9	–	11.5
ALL	11.4	25.6	22.9	17.1	14.4	8.6	100.0

*Makes personal sales but receives no commission (or other compensation) on them.

TABLE 48

SALES MANAGERS DOLLAR EARNINGS BY COMPENSATION METHOD

	Low	**High**	**Median**	**Average**
Straight Salary, No Personal Sales	$20,000	$44,000	$32,200	$33,800
Straight Salary	$19,500	$50,000	$34,500	$34,100
Salary Plus Commission	$28,000	$75,000	$35,000	$41,100
Salary Plus Override	$35,000	$41,000	$38,150	$38,075
ALL	$19,500	$75,000	$35,000	$36,666

By company size, the highest average earnings were in the $8-15 million category, where earnings were 26% above average. Sales managers at under $3 million had the lowest average earnings at 16% below average.

TABLE 49

COMPENSATION AND SALESPERSON SUPERVISED
BY COMPANY SIZE

	Average Earnings	No. Salespersons Supervised
Under $3 million	$29,540	4.6%
$3-8 million	36,391	8.7
$8-15 million	44,675	12.1
Over $15 million	32,370	9.2

Contracts for sales managers are not as prevalent as contracts for salespersons. Only 31% of the sales managers are covered by contracts.

BONUS

Sixty-six percent of the companies paid a bonus to sales managers in 1978. Thirty-nine percent of the companies paying bonuses based the bonus on sales performance only and 39% based bonuses on profitability. This marks a change from the 1976 survey in which 56% of the companies based the bonus on sales performance and only 7% on profitability.

TABLE 50

BASIS OF BONUS
Percent of Companies

None Paid	34%
Sales Performance	17
Profitability	26
Sales and Profit	8
Volume and Profit	15
	100%

OTHER EXECUTIVES IN SELLING

Other executives are an important factor in the sales volume of many companies. They account for over 25% of the sales for 40% of the companies at $8 million or less, and for over 10% of the sales at 60% of the companies under $3 million. In all cases except the under $3 million category these executives do not receive additional compensation for these sales.

TABLE 51

PERCENT OF COMPANY SALES BY OTHER EXECUTIVES
Percent of Companies In Each Size Category

	None	5% or less	6-10%	11-15%	16-25%	26-50%	Over 50%	Paid
Under $3 million	28.5	14.3	–	14.3	–	42.9	–	14.3
$3-8 million	50.0	20.0	–	10.0	–	20.0	–	–
$8-15 million	75.0	–	–	25.0	–	–	–	–
Over $15 million	72.7	27.3	–	–	–	–	–	–
ALL	54.5	18.2	–	9.1	–	18.2	–	6.1

At smaller companies this executive is usually the company president. At larger companies this executive is usually a vice president or general manager in charge of sales or marketing.

TABLE 52

OTHER EXECUTIVES IN SELLING
FREQUENCY OF MENTION BY TITLE
Percent of Companies In Each Size Category

	President Or General Manager	Vice President Or General Manager Sales/Marketing	Secretary/ Treasurer
Under $3 million	70%	20%	10%
$3-8 million	55	36	9
$8-15 million	33	33	33
Over $15 million	–	100	–

IBFI

IBFI SALES COMPENSATION SURVEY

SECTION 1 – DIRECT SALES

1. AVERAGE COMPENSATION

Excluding sales to house accounts and sales trainees, what were your sales and earnings per salesperson in 1978?

	For the *highest paid salesperson*	For the *lowest paid salesperson*	For the *average salesperson*
a. Total earnings	$_____	$_____	$_____
b. Total sales produced	$_____	$_____	$_____
c. Average order size	$_____	$_____	$_____
d. Years forms experience	_____	_____	_____
e. Years sales experience	_____	_____	_____

2. METHODS OF COMPENSATION

a. Does the *method* of compensation vary with: *(Check all that apply)*

EXPLAIN:	( ) Product	( ) Territory	( ) Account	( ) Other Specify:_____
Salary is paid for?	_____	_____	_____	_____
Straight Commission is paid for?	_____	_____	_____	_____
Salary Plus is paid for?	_____	_____	_____	_____

b. Description of Compensation Methods: *(Answer all that apply)*

( ) Straight salary: Amount of salary varies with: ( ) Experience ( ) Territory ( ) Years of Service ( ) Products sold

Average amount per month $_____ ( ) Other_____

( ) Straight commission. Average rate:_____

Commission base_____

( ) Salary plus commission. Base monthly salary $_____

Average commission rate_____ Commission base_____

Commission begins after $_____sales per month.

( ) Other–Describe_____

c. If you pay commission, does the commission rate vary with: *(Answer all that apply)*

( ) Size of order Lowest rate paid_____, for what order size_____

Highest rate paid_____, for what order size_____

( ) Selling price

( ) Product sold Average commission rates paid for:

Continuous custom_____ Unit sets_____

Continuous stock_____ Other_____

( ) Profit from sale
( ) Sales territory
( ) New versus repeat sale
( ) New product versus established product
( ) Other_____

3. Does salesperson have say about price? ( ) Yes ( ) No
   If yes, how much can he increase_____% and/or decrease_____% price above or below the base quote without approval?

   At what dollar limit does salesperson need approval to change price from base quote? $_____
   How much does he share in decrease? _____% Increase? _____%

4. Using your typical compensation plan, what would a salesperson's annual earnings be if he sold:
   $100,000 per year? $_____earnings
   $400,000 per year? $_____earnings

5. Sales controls used to evaluate individual performance:

   ( ) No specific sales volume quotas set for individual salespersons
   ( ) Total sales volume quota
   ( ) Separate sales volume quotas for different accounts
   ( ) Separate sales volume quotas for different products
   ( ) Quotas on new business
   ( ) Other_____

   Who sets salesperson's sales quotas?_____

6. Profit controls used to evaluate individual performance:

   ( ) No specific profit objectives set for individual salesperson
   ( ) Overall profit objective
   ( ) Separate profit goals for different accounts
   ( ) Separate profit goals for different products
   ( ) Other_____

   Who sets salesperson's profit objective?_____

7. Do you have: Team sales quotas? ( ) Yes ( ) No
   Team profit objectives? ( ) Yes ( ) No

   Do you compensate individuals for team performance? ( ) Yes ( ) No

8. Do you allow salespersons to draw against commissions? ( ) Yes ( ) No

   The draw can be what percent of past commissions? _____%

9. Do you also pay a bonus? ( ) Yes ( ) No

   Basis of bonus:_____

   Average bonus paid in 1978 $_____

10. Do you have contracts for salespersons? ( ) Yes ( ) No

11. Are salespersons charged for returns and reruns? ( ) Yes ( ) No

    Basis of charge_____

12. Are salespersons charged for uncollected accounts and bad debts? ( ) Yes ( ) No

    Basis for charge_____

13. Salesperson assignments are made *(check all that apply)*:

( ) Geographically
( ) By product line
( ) By type of application
( ) By user industry type
( ) Other_____

( ) By amount of sales volume or potential
( ) Given list of assigned prospects
( ) Salesperson prospects at will
( ) Salesperson left alone to develop business where they find it

14. **ALLOWANCES:**

A. Automobile– ( ) Company provides car ( ) Salesperson provides car
B. Automobile expenses– ( ) Absorbed by salesman ( ) Reimbursed flat amount ( ) Reimbursed on usage
Amount allowed $_____ or %_____

C. Other expenses–
Entertainment: ( ) Absorbed by salesperson ( ) Reimbursed up to_____% (or) $_____
Gifts: ( ) Absorbed by salesperson ( ) Reimbursed up to_____% (or) $_____

15. **FRINGE BENEFITS**

a. Does your company provide salespersons:

( ) Life Insurance
( ) Accident & Sickness Insurance
( ) Hospitalization Insurance
( ) Pension
( ) Others_____
_____

b. Average *monthly* benefit cost per salesperson $_____

16. **NEW SALESPERSONS**

a. What is your current starting pay for sales trainees? $_____
b. Do you have a sales training program? ( ) Yes ( ) No
c. What sales volume can a sales trainee be expected to produce after:

$_____3 months $_____6 months $_____9 months $_____1 year

d. What is your usual source of new salespersons?

( ) Experienced salesperson from forms industry
( ) Experienced salesperson not from forms industry
( ) Non-sales personnel within your company
( ) Raw recruits

SECTION 2 -- SALES MANAGERS (First Line)

1. **SALES MANAGER'S PERSONAL SALES**

Do sales managers also sell? ( ) Yes ( ) No

Average volume sold per sales manager in 1976 $_____

If sales manager receives additional compensation for these sales? Average commission rate _____%

Commission basis_____

2. Average annual earnings of sales manager in 1978 $_____

3. Method of compensation (other than for personal sales)

( ) Straight salary
( ) Straight override: Override basis_____ Average rate_____%
( ) Salary plus override: Base monthly salary $_____
Override basis_____ Average rate_____%

4. Does sales manager also receive bonus? ( ) Yes ( ) No Basis of bonus_____

5. Does sales manager's compensation vary with *(check any that apply)*:
( ) Number of salespersons supervised
( ) Total sales volume supervised
( ) Other_____
( ) Profitability of accounts supervised
( ) Number of accounts supervised

6. Average number of salespersons supervised per sales manager_____

7. Do you have contracts for sales managers? ( ) Yes ( ) No

SECTION 3 – OTHER EXECUTIVES IN SELLING

1. Do other executives have selling responsibility? ( ) Yes ( ) No
Describe:

Title	Number of Accounts Served	Approximate % of Company Sales Volume Produced

2. Is additional compensation paid for these sales? ( ) Yes ( ) No

SECTION 4 – COMPANY PROFILE

1. What was your average gross profit on sales in 1978? *(Sales less manufacturing costs)*
Direct sales_____% Dealer sales_____% Overall_____%

2. What percent of your total 1978 sales were:
_____% House accounts; _____% Direct; _____% Dealer; _____% Other = 100%

3. Total direct sales compensation as percent of direct sales (excluding house accounts), in 1978? _____%

4. Percent of total selling expense to total sales_____%

5. Number of full-time direct salespersons_____

6. Company size: ( ) Under $3 million ( ) $3-8 million ( ) $8-15 million ( ) Over $15 million

7. Product mix in 1978 (% of sales)
_____% Continuous Custom; _____% Continuous Stock; _____% Unit Sets; _____% Other = 100%

8. What is the average annual turnover rate of your sales force? _____% *(Number of individuals employed during 1978 ÷ number of positions)*